

Macro Note

Asia: RCEP To Drive Further Economic Cooperation

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Suan Teck Kin, CFA

Head of Research

Suan.TeckKin@uobgroup.com

- The Regional Comprehensive Economic Partnership (RCEP) is the world's largest free trade agreement (FTA), covering 30% of the world's GDP and world's population, and 27% of the world's total trade (i.e. merchandise exports and imports) value in 2019. Furthermore, RCEP members produced nearly half of the world's manufacturing output.
- Following the inking of the trade agreement on Sunday (15 Nov), the RCEP countries would need to ratify the Agreement for it to come into force, including six ASEAN countries and three non-ASEAN countries. This is expected by next year, 2021.
- With the broadening and deepening of economic and trade linkages among its members, there will be benefits from lower tariffs, increase in services trade and investment flows from even beyond the region as well as enhanced protections in areas such as e-commerce and intellectual property.
- RCEP fits right into China's dual circulation strategy, which capitalizes its large domestic market at the core of the strategy, and interacts the domestic market with the external market through trade, investment and capital flows and its manufacturing capability. This will in turn reinforce the growth and economic prospects of RCEP members.

Crossing The Finishing Line After 8 Years

On Sunday (15 Nov), fifteen nations signed on to the Regional Comprehensive Economic Partnership (RCEP) trade agreement, which is the world's largest free trade agreement (FTA).

The agreement was first proposed in 2012, and involved 46 negotiating meetings, 19 ministerial meetings and 3 Leaders Summits in its 8 years' journey. The agreement comprises 15 members in the Asia Pacific region: the 10 ASEAN member states, together with China, Japan, South Korea, Australia and New Zealand. India withdrew in November 2019 although there is still a possibility it could rejoin at a later date.

Against a backdrop of rising trade protectionism, deglobalisation and the COVID-19 pandemic causing severe disruption and uncertainty to global production and supply chains, the conclusion and signing of RCEP reaffirms the grouping's determination of further trade liberalization and closer economic cooperation.

What Is RCEP?

The Regional Comprehensive Economic Partnership (RCEP) is the world's largest free trade agreement (FTA), covering 30% of the world's GDP and world's population, and 27% of the world's total trade (i.e. merchandise exports and imports) value in 2019.

The RCEP is based on existing FTAs among its members which comprise a diverse group of countries in Asia Pacific, from developed economies such as Japan and South Korea to middle income economies in ASEAN; and China, which is the second largest economy in the world.

The aim of the RCEP is to lower tariffs, open up trade in services, facilitate the flow of foreign investments, and enhance protections in areas such as e-commerce and intellectual property with the broadening and deepening of economic and trade linkages among its members.

The RCEP will increase the ease for many of the Chinese companies to invest in the regional markets, while the other member countries will also benefit from having access to opportunities in the large and rising Chinese market. Under the agreement, there will be further market access into China, Japan and South Korea.

There will also be improved tariff elimination concessions over and above existing regional and bilateral FTAs, which will allow businesses especially in the Chemicals & Plastics, and Processed Food sectors, to benefit from cost savings when selling their products to these markets.

Simplified customs procedures and enhanced trade facilitation measures will allow efficient administration of procedures and expeditious clearance of goods. This includes the release of express consignments and perishable goods within six hours of arrival, thus lowering transaction time and costs for all parties.

Within the services trade, at least 65% of the sectors are open to foreign participation and with increase in permissible foreign shareholding limits in some RCEP markets. Certain sub-sectors will be open for 51% foreign equity participation across various sectors including Telecommunications, Financial Services, Computer Related Services, Professional Services, and the Distribution and Logistics Services.

Supply chains and value chains will be further integrated into the RCEP platform, as regional cumulation allows businesses to include the use of raw materials and parts sourced from any of the other 14 RCEP markets as originating content. This makes it easier for businesses to meet the required rules of origin for their exports, and thus benefit from preferential treatment and greater cost-savings.

Summary table: Comparison of RCEP With Other Trade Agreements (2019)					
	RCEP	RCEP+India	CPTPP	CPTPP+US	USMCA
Population (million people)	2,303.0	3,669.0	507.9	837.0	494.1
<i>Population (% of world's population)</i>	<i>29.9</i>	<i>47.6</i>	<i>6.6</i>	<i>10.9</i>	<i>6.4</i>
Nominal GDP (USD trillion)	25.9	28.8	11.3	32.7	24.4
<i>Nominal GDP (% of world's GDP)</i>	<i>29.6</i>	<i>32.9</i>	<i>12.9</i>	<i>37.3</i>	<i>27.9</i>
Per capita GDP (USD)	11,254	7,845	22,167	39,059	49,444
Total exports (USD trillion)	5.48	5.81	2.94	4.58	2.55
<i>Total exports (% of world's exports)</i>	<i>29.0</i>	<i>30.7</i>	<i>15.5</i>	<i>24.2</i>	<i>13.5</i>
Total imports (USD trillion)	4.96	5.44	2.85	5.42	4.41
<i>Total imports (% of world's imports)</i>	<i>25.7</i>	<i>28.3</i>	<i>14.8</i>	<i>28.1</i>	<i>22.9</i>
Total trade (USD trillion)	10.44	11.25	5.79	10.00	6.05
<i>Total trade (% of world trade)</i>	<i>27.3</i>	<i>29.4</i>	<i>15.2</i>	<i>26.2</i>	<i>15.8</i>
Manufacturing value added (USD trillion)	5.6	6.0	1.7	3.7	2.4
<i>Manufacturing value added (% of world's output)</i>	<i>42.8</i>	<i>45.8</i>	<i>13.5</i>	<i>30.5</i>	<i>19.7</i>
Source: Macrobond, UOB Global Economics & Markets Research est					
RCEP: Regional Comprehensive Economic Partnership, comprising the 10 ASEAN members, plus China, Japan, South Korea, Australia and New Zealand CPTPP: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership; comprises of 11 members: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam USMCA: United States-Mexico-Canada Agreement, which succeeds the North American Free Trade Agreement (NAFTA)					

What Is Next For RCEP?

The RCEP countries would need to ratify the Agreement for it to come into force, including six ASEAN countries and three non-ASEAN countries. This is expected by next year, 2021.

RCEP will eliminate as much as 90% of the tariffs on imports between its parties, and some of the cuts would take place over 20 years of the agreement coming into effect.

India pulled out of talks in November 2019, concerned that the elimination of tariffs would open its markets to a flood of imports that could harm local producers. While there may be a chance that India could rejoin in future, RCEP on its own is already quite a substantial agreement. This is unlike the CPTPP (The Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which is just a shadow of its former self without the participation of the US. CPTPP is less than half the size of RCEP in terms of GDP and export value.

With RCEP showing the way forward, it remains to be seen whether the US will rejoin CPTPP to exert its influence in global trade. To a certain extent, the demise of TPP and rising trade protectionism in subsequent years could be a key catalyst for the conclusion of the RCEP.

Recall that US President Trump withdrew the United States from the Trans-Pacific Partnership (TPP) in 2017, which was set to become the world's largest trade agreement at that time. Even with the absence of an anchor economy, the remaining 11 member states of the TPP forged the CPTPP, which entered into force on 30 December 2018. For more background story of the TPP and RCEP, please refer to our report ([Asia: What Is In Store For Trade After TPP?](#), 25 November 2016).

RCEP And China's Dual Circulation Strategy

As the world's second largest economy, China's merchandise trade with the RCEP members is already quite substantial. As a group, RCEP is China's largest trade partner accounting for more than 32% of China's total trade. This is far ahead of ASEAN's 15% share. In addition, China's Belt & Road Initiative (BRI) will also be entrenched further with the conclusion of RCEP, as many member states are also connected via BRI.

With China's retail market set to overtake the US to become the world's largest within the next few years, it is important that businesses have access opportunities in such a sizeable market and in the most efficient manner.

Coupled with the rising affluence in ASEAN itself, the RCEP will help attract investors beyond the region as the Chinese and regional markets will be seen as an "integrated market".

As such, RCEP fits right into China's dual circulation strategy, which capitalizes its large domestic market at the core of the strategy, and interacts the domestic market with the external market through trade, investment and capital flows and its manufacturing capability. With nearly half of the world's manufacturing output produced by RCEP members, the agreement will further elevate their export competitiveness and efficiency.

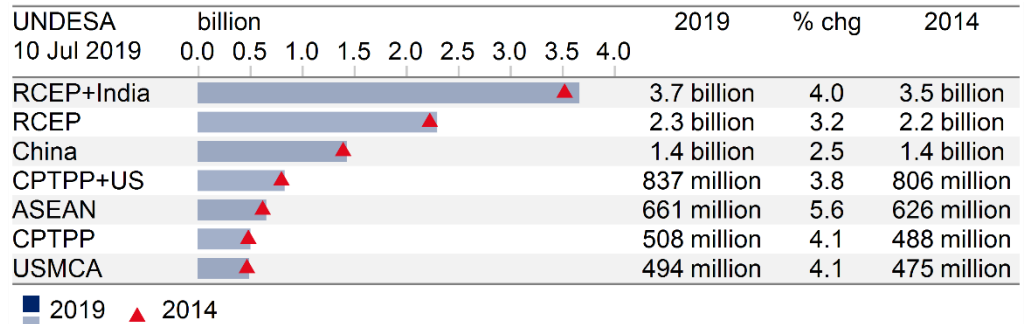
As the RCEP integrates further the Asia Pacific economies and markets, there is a reasonable chance that China will be able to achieve the doubling of the Chinese economy by 2035. This will in turn reinforce the growth and economic prospects of RCEP members.

For more details on China's dual circulation strategy, please refer to our publication: [China: 14th 5-Year Plan \(2021-2025\) and Long-Range Objectives Through the Year 2035](#), 4 November 2020; [中国：十四五规划（2021-2025 年）和 2035 年远景目标](#)).

Chart Gallery

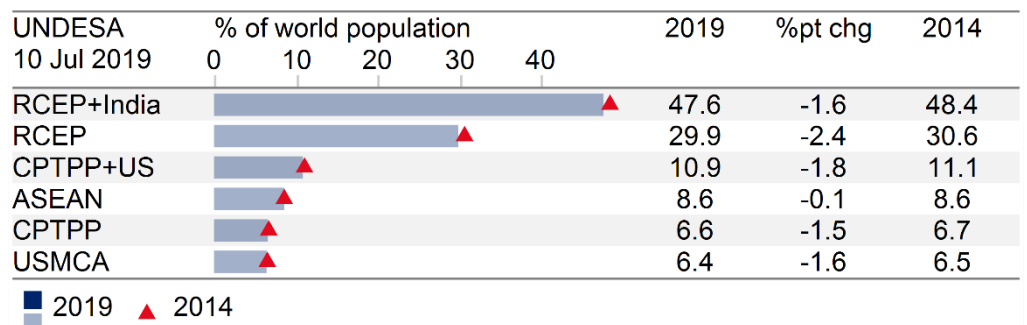
Population Size, Annual

Source: Macrobond, UOB Global Economics & Markets Research



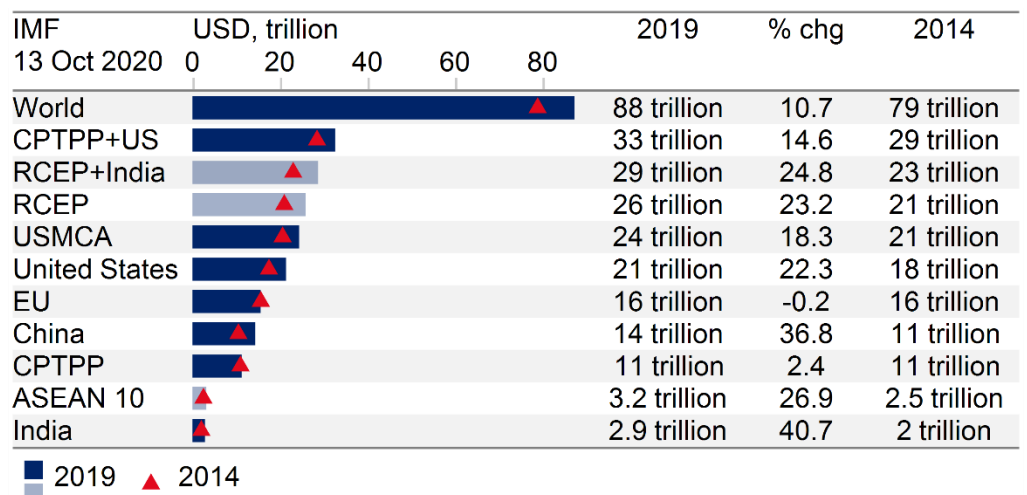
Population Size, Annual, % of World

Source: Macrobond, UOB Global Economics & Markets Research



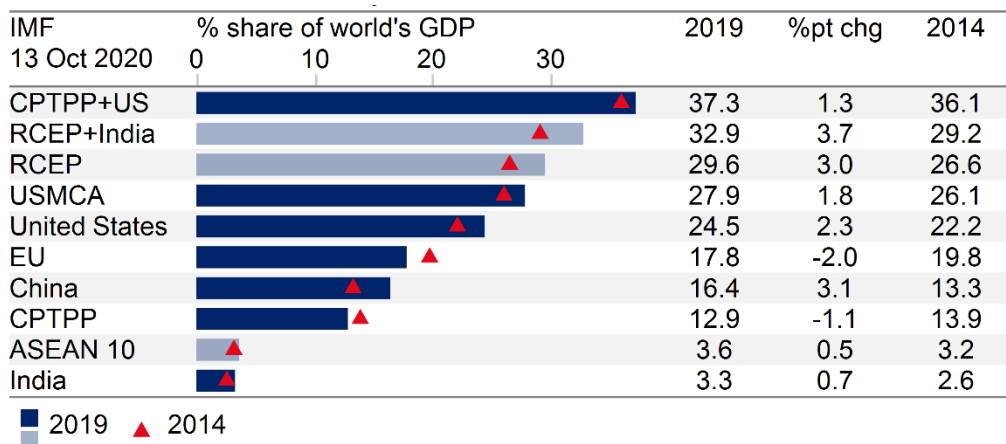
Size of Economy: GDP In Current Prices, USD

Source: Macrobond, UOB Global Economics & Markets Research



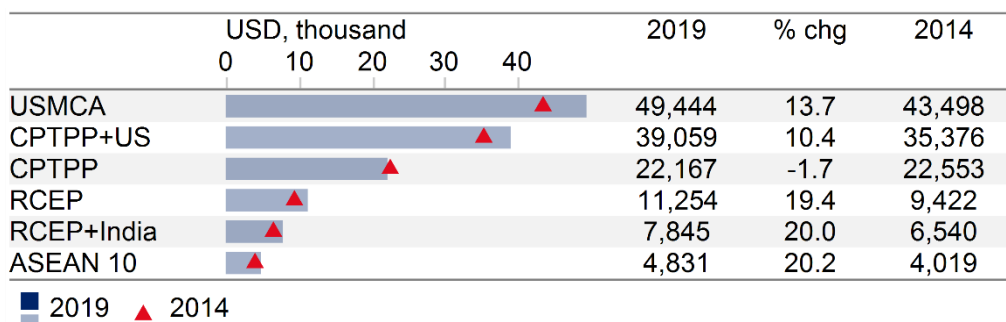
Size of Economy: GDP In Current Prices, % of Total

Source: Macrobond, UOB Global Economics & Markets Research



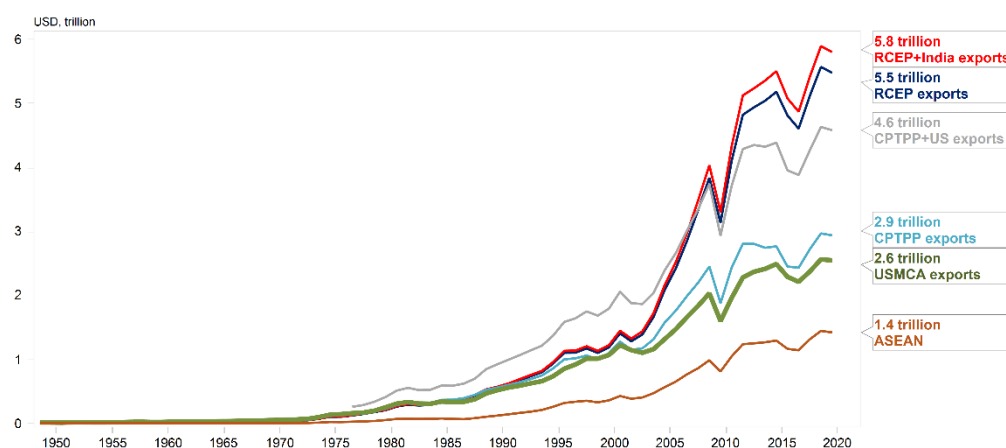
Per Capita GDP, USD

Source: Macrobond, UOB Global Economics & Markets Research



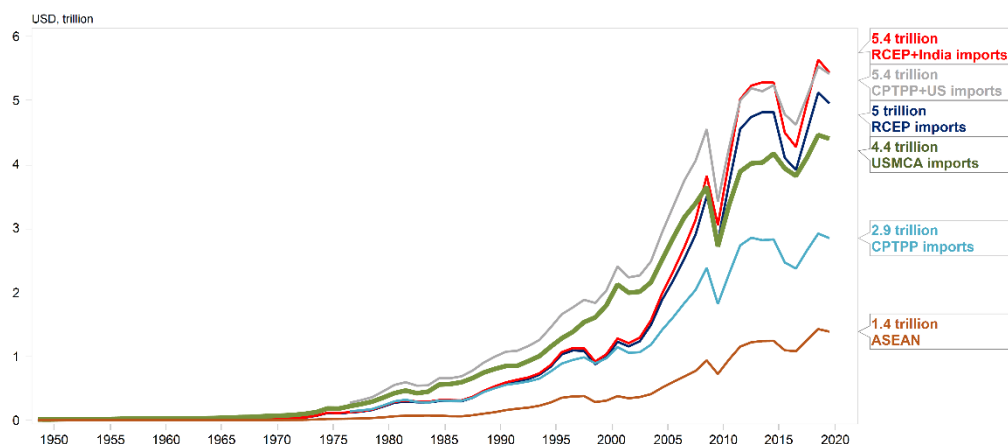
UNCTAD, Merchandise: Export, Current Prices, 2019

Source: Macrobond, UOB Global Economics & Markets Research



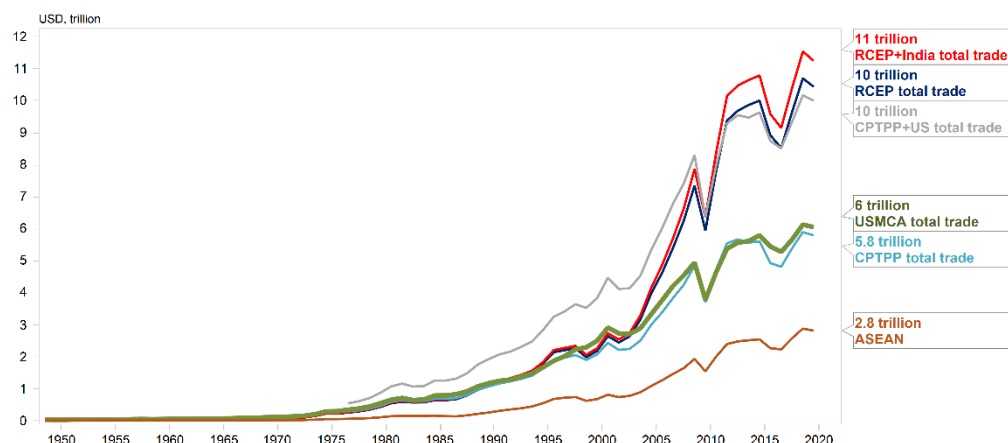
UNCTAD, Merchandise: Import, Current Prices, 2019

Source: Macrobond, UOB Global Economics & Markets Research



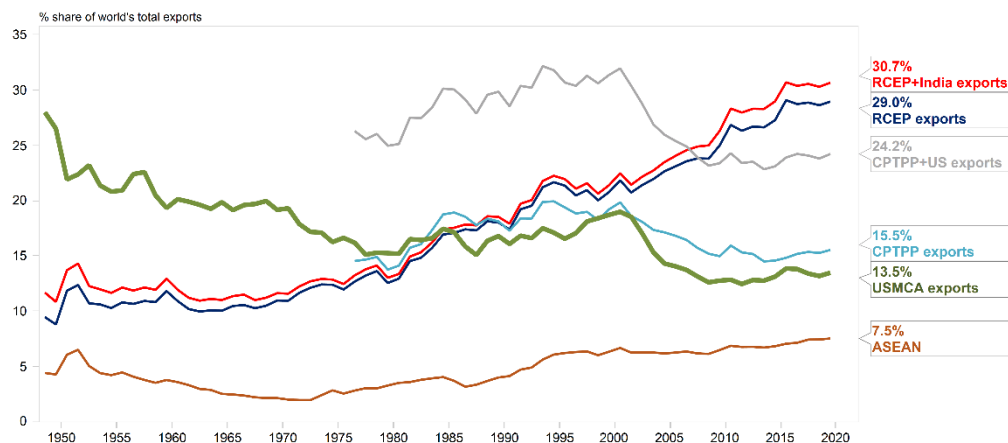
UNCTAD, Merchandise: Total Trade (Export+Import), Current Prices, 2019

Source: Macrobond, UOB Global Economics & Markets Research



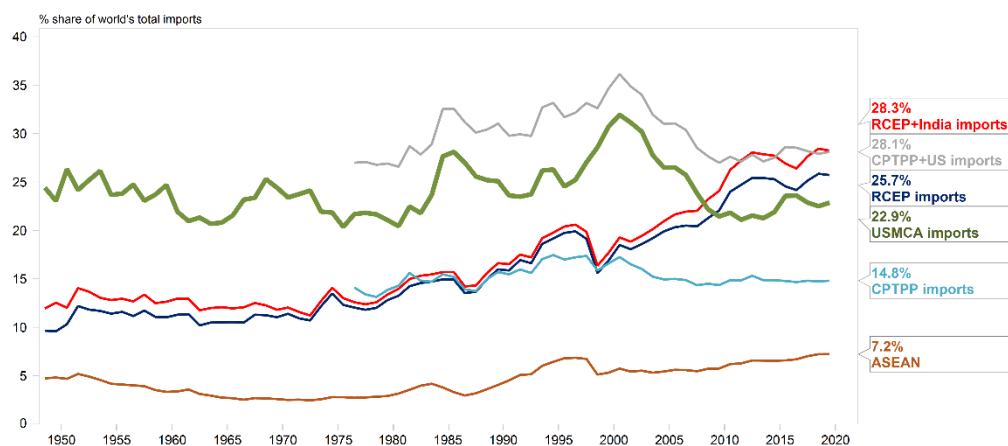
UNCTAD, Merchandise: Export, % of World's Total Exports

Source: Macrobond, UOB Global Economics & Markets Research



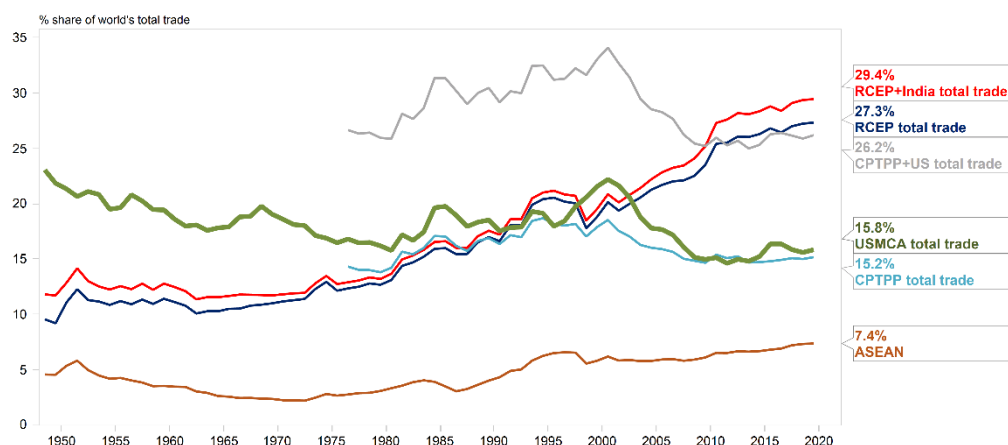
UNCTAD, Merchandise: Imports, % of World's Total Imports

Source: Macrobond, UOB Global Economics & Markets Research









UNCTAD, Merchandise: Total Trade, % of World's Total Trade

Source: Macrobond, UOB Global Economics & Markets Research



China, Total Merchandise Trade (Exports + Imports), YTD

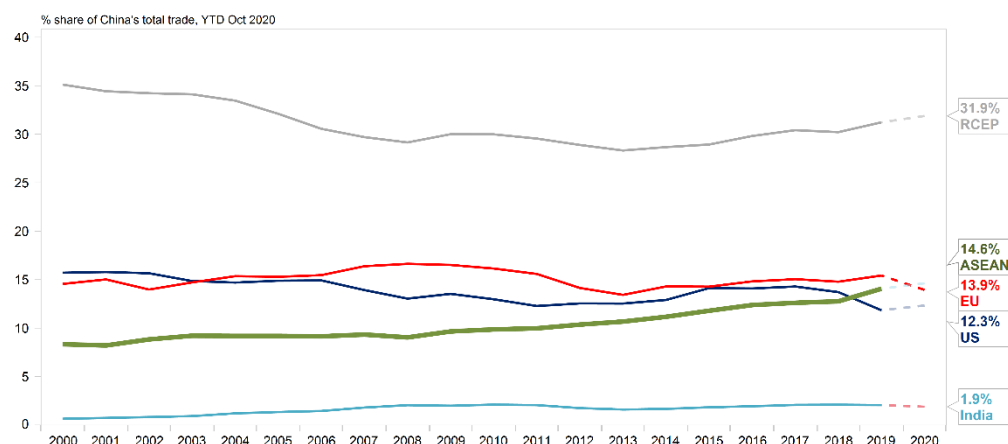
Source: Macrobond, UOB Global Economics & Markets Research

	USD, trillion				Latest YTD	%y/y chg	1Y ago	2019 Full year
	0.0	1.0	2.0	3.0				
China, Total Trade					3.7 trillion	-0.6	3.7 trillion	4.6 trillion
RCEP					1.2 trillion	1.8	1.2 trillion	1.4 trillion
ASEAN					543 billion	5.1	516 billion	642 billion
European Union (EU)					517 billion	-10.8	580 billion	704 billion
United States					457 billion	2.1	448 billion	540 billion
India					69 billion	-9.9	77 billion	93 billion

■ Latest ▲ 1Y ago


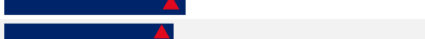
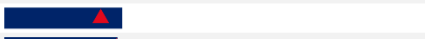
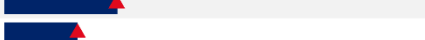

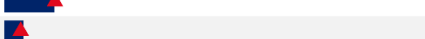



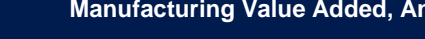
China, Total Merchandise Trade (Exports + Imports) With Trade Partners, % Share

Source: Macrobond, UOB Global Economics & Markets Research



Manufacturing Value Added, Annual, USD




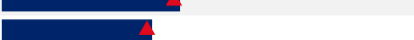
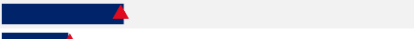
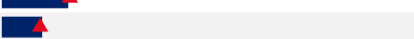




Source: Macrobond, UOB Global Economics & Markets Research

World Bank 16 Oct 2020	USD, trillion	Latest	% chg from 2014	2014
	0 4 8 12			
World		14 trillion	8.9	13 trillion
RCEP+India		6 trillion	8.7	5.5 trillion
RCEP		5.6 trillion	7.6	5.2 trillion
China		3.9 trillion	22.4	3.2 trillion
CPTPP+US		3.7 trillion	0.6	3.7 trillion
USMCA		2.4 trillion	-0.1	2.4 trillion
United States		2.2 trillion	6.6	2 trillion
CPTPP		1.7 trillion	-1.1	1.7 trillion
ASEAN		629 billion	16.6	539 billion
India		395 billion	28.4	307 billion

■ Latest ▲ 2014

Manufacturing Value Added, Annual, % Share

Source: Macrobond, UOB Global Economics & Markets Research

World Bank 16 Oct 2020	% share of world manufacturing	Latest	%pt chg	2014
	0 10 20 30 40			
RCEP+India		45.8	2.4	43.4
RCEP		42.8	1.8	41.0
CPTPP+US		30.5	1.3	29.2
China		28.2	3.1	25.1
USMCA		19.7	0.7	19.1
United States		16.6	0.6	16.1
CPTPP		13.5	0.3	13.2
Japan		7.4	-0.2	7.5
ASEAN		4.5	0.2	4.3
India		2.9	0.4	2.4

■ Latest ▲ 2014

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